

Considerations in designing a dairy industry development strategy

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by

David Harris

Freelance Economist

*D. N. Harris & Associates,
Melbourne, Australia*

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Background

A generic process for designing a DDS (dairy development strategy) that creates growth opportunities for small holder dairy farmers is a focus of this workshop. There are formal and informal markets for the milk produced by small holders. An effective DDS needs to seek the inclusion of small holders in the formal marketing channels. But it also needs to recognise that informal markets also offer opportunities for market development.

The primary aim of the workshop is to consider policy measures that may contribute to a DDS. What are the policy initiatives that will ‘make it happen’? The DDS needs to identify the economic constraints holding back industry development. It also needs to assess the role for government in addressing these constraints.

The aim of this note is to highlight some considerations in developing a generic process for designing a DDS. It reflects experiences with industry plans in the Australian dairy industry. These experiences suggest the key elements of an effective DDS would be:

- identification of the policy measures and regulatory requirements that will contribute to the specific objectives in the strategy; and
- advice on the implementation of those policy measures.

Designing a DDS – the current situation

The process of designing an industry development strategy has several steps. These steps are applicable to designing a country specific DDS. One of our concerns at this workshop is the policy aspects of a development strategy. But before we can identify the policy measures that will be required we need to clearly understand:

- the structural features of the industry – physical and financial dimensions of farm production and the product marketing chain;
- the industry stakeholders – farmers, government, industry bodies, regulatory agencies, processors, marketers, external traders (ie importers and exporters), distributors, retailers, etc;
- the role/activities of the institutions that shape industry development;
- the objectives of existing industry policy measures and regulations;
- the effectiveness of the implementation of those policy measures and regulatory requirements – what sort of outcomes have we observed; and
- external factors affecting industry competitiveness (eg macro-economic policies).

This ‘stock-take’ evaluation process is an essential first step in developing a strategy of the way forward. It will identify constraints (economic, institutional and social) on the industry’s development. It should highlight the ‘good/bad’ features of the industry’s operating environment and product marketing chain. It should reveal the success/failure of current/recent industry specific policy measures and regulatory controls.

A vision for industry development

This first step in industry strategy development provides the information building blocks for subsequent stages of the process. The next step is to develop a vision or goal for the industry. This typically involves consideration of what the stakeholders would ultimately like to achieve and what they would realistically hope to achieve.

The vision or goal for an industry development strategy has to be collectively established by all the relevant stakeholders. Individual views have to be considered and a collective agreement is required in order to get a 'buy-in' by all stakeholders – everybody needs to be moving in the one direction and focused on the same end-point:

- an appropriate description of the vision/goal needs to be discussed and agreed;

The level of detail in describing a strategic goal or vision for the industry is an important consideration. In some cases a statement of a measurable outcome may be appropriate. But in other cases there may be several descriptive elements to a goal/vision.

Developing a goal/vision has two other considerations. First, all stakeholders must be involved in the process – they have been identified as part of the first 'stock-take' step. A second consideration is the establishing a time-frame for achieving the vision/goal. A realistic assessment is required as the credibility of the development strategy among industry participants will depend on position taken:

- credibility of the goal/vision is critical for creating a favourable sentiment among private sector participants – this is important for industry investment decisions.

By way of example a dairy industry initiative in Australia looked at the way forward after the market was deregulated in the year 2000. It was prepared to provide an understanding of the issues facing the industry in a fully commercial environment and to develop policy recommendations. The working group that prepared the industry development strategy had to describe a longer term vision for the industry as an initial step.

In summary the vision that was described contained the following elements:

- the global and domestic markets would become more competitive and the industry supply chain more complex and diverse;
- there were no magic answers to replace the support and reliability that regulations had provided in the past;
- farmers would have to take responsibility for their own future by
 - improving the efficiency of their farm enterprise,
 - demanding services and information to support better decision making,
 - recognising the role of marketing investments beyond the farm gate, and
 - embracing the integration and cooperation that will enhance the performance of the dairy foods value chain in the market place.

Developing specific objectives

The next step is to translate the development goal/vision into a set of specific objectives for different components of the industry. These objectives will typically relate to one or more of the industry stakeholders. The aim is to establish a set of more specific objectives that target different aspects of the industry marketing chain.

This process will provide some direction on the types of policy measures and regulatory controls that may need to be implemented. It may also describe the expected commercial developments that are aligned with policy based objectives. The specific objectives will contribute to achieving the industry development goal. They should be described with sufficient clarity that allows specific policy actions and programs to be described as part of the strategy.

By way of example it is useful to look at the specific objectives that formed the basis of the Australian dairy industry development strategy that was implemented in the mid 1980s. The development strategy was known as the Kerin Plan. It was implemented at a time when the industry was facing numerous challenges that had been brought about by the distorting effects of previous policy interventions and rapidly changing market conditions.

The Plan was developed through an extensive industry/government consultation process. In broad terms the Minister with responsibility for the industry described the objectives of the Plan as:

- reform the existing dairy product marketing schemes to reduce the inefficient, inequitable and unstable nature of the arrangements;
- reduce the incentive for stimulating over-production;
- reduce the disincentive for domestic consumption growth;
- remove the incentive for increased imports that was threatening to undermine the price support arrangements;
- eliminate the incentive for dairy manufacturers to focus on gaining an advantage from the existing regulatory system; and
- encourage manufacturers to develop new markets and new product innovations.

Specifying policy measures

The final step is to identify the specific policy measures and regulatory requirements that will need to be implemented to achieve the goal/vision of the strategy. This will draw on the information gathered as part of the first 'stock-take' step. It may involve:

- reforms to existing policies and regulations;
- refinements to the objectives and design of existing government programs;
- the development of new industry development programs;
- implementing new regulatory controls;

- changing government priorities in infrastructure development;
- establishing new institutional arrangements such as industry bodies, regulatory agencies and discussion forums for monitoring implementation and progress with the development strategy.

This step provides some explicit direction for public policy actions that will contribute to the specific objectives of the strategy. An assessment of the implicit and explicit costs of the proposed actions will be necessary. Government budgetary constraints and the costs of economic distortions caused by policy interventions are important considerations when implementing an industry development strategy.

Other considerations in formulating a set of specific policy measures and regulatory requirements include:

- policy conflicts with other areas of government;
- the scope of legislative powers of government in terms of policy implementation and compliance;
- competition for resources and relative returns from other economic activities;
- physical limitations on industry development - climate, geography, etc.

By way of example it is again instructive to look at the specific policy actions that were set out in the Kerin Plan that was implemented by the Australian dairy industry in the mid 1980s. This Plan was a turning point in the industry's development.

The Kerin Plan had been described as an industry development strategy at the time it was prepared. Government and industry representatives had agreed a new approach to dairy marketing arrangements was necessary because of the inefficiencies and inequities that had become clearly apparent. The specific actions in the Plan were:

- end export pooling of returns to encourage exporters to focus on export market development;
- replace the existing industry marketing arrangements with a support policy that provided a more uniform level of assistance for all manufactured dairy products;
- reduce the distortions in financing the support arrangements by introducing a levy on all milk production;
- progressively reduce the level of domestic price support to a level equivalent to import parity;
- use existing trade policy measures to protect the industry from unfair import competition;
- reform the industry marketing body to improve its effectiveness in guiding industry development;
- provide government assistance for industry adjustment, marketing innovation, research and underwriting of returns; and
- increase the rate of industry financed levy used to fund research.

Concluding comments

The steps that have been outlined provide some key considerations for designing an industry development strategy based on past experiences in the Australia. It covers the key principles in strategy development but there may be other considerations that need to be incorporated. It may provide a useful starting point for developing a 'generic' process in how to design a Dairy Development Strategy (DDS) during the workshop.

The development and implementation of a DDS can be constrained by various factors that have been noted in the previous section. A further constraint that should be noted is the potential for political economy factors to affect the process. Competing commercial interests and representatives of regionally specific interests can disrupt the process.

Every effort should be made to include all industry participants in the development process. However, other political impediments can potentially arise from other sources. For example:

- independent statutory bodies with an interest in the industry;
- government oversight committees;
- local or district bodies with special responsibilities;
- lobby groups from related industries; and
- government agencies or Ministries with specific legislative responsibilities.

In preparing a DDS it is important to consider the potential for political economy factors to constraint the implementation of the strategy.